

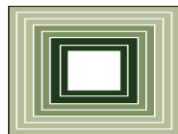
# **Department of Revenue**

## *Agency and Budget Overview*

**Joint Meetings of House and Senate Appropriations  
Committees on General Government**

**Susie Camilleri**

**March 23, 2021**



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Outline

- Department and Budget Overview
  - Statutory Duties & Responsibilities
  - Budget Overview
- Department Divisions and Special Funds
- Collections Activity
- Recent Legislative Actions
- Budget and Fiscal Issues

# Statutory Duties and Responsibilities

# **Statutory Duties & Responsibilities**

## Chapter 143B, Article 4

- Established the Department of Revenue as a cabinet-level department responsible for collecting taxes on behalf of the State and local governments

## Chapter 105, Article 15

- Describes DOR's duties as they pertain to the Property Tax Commission and the valuation and taxation of property

## G.S. 105-243.1 – Collection Assistance Fee

- Set a 20% fee on unpaid State tax debt
- Authorizes the Secretary of Revenue to waive or reduce this fee
- Outlines allowable uses of the fee

# Budget Overview



# General Fund Budget Overview

Department of Revenue Budget Summary (14700)				
	FY 2019-20 Actual	FY 2020-21 Certified	FY 2020-21 Authorized	FY 2021-22 Base
Requirements	155,218,739	171,380,540	172,477,966	155,095,449
Receipts	68,033,227	79,601,071	80,698,497	63,306,741
Net Appropriation	87,185,512	91,779,469	91,779,469	91,788,708
FTE	1463.512	1463.92	1463.386	1463.386

## Sources of Receipts:

- Collection Assistance Fee
- Transfers from the Dept. of Transportation
- A portion of taxes collected

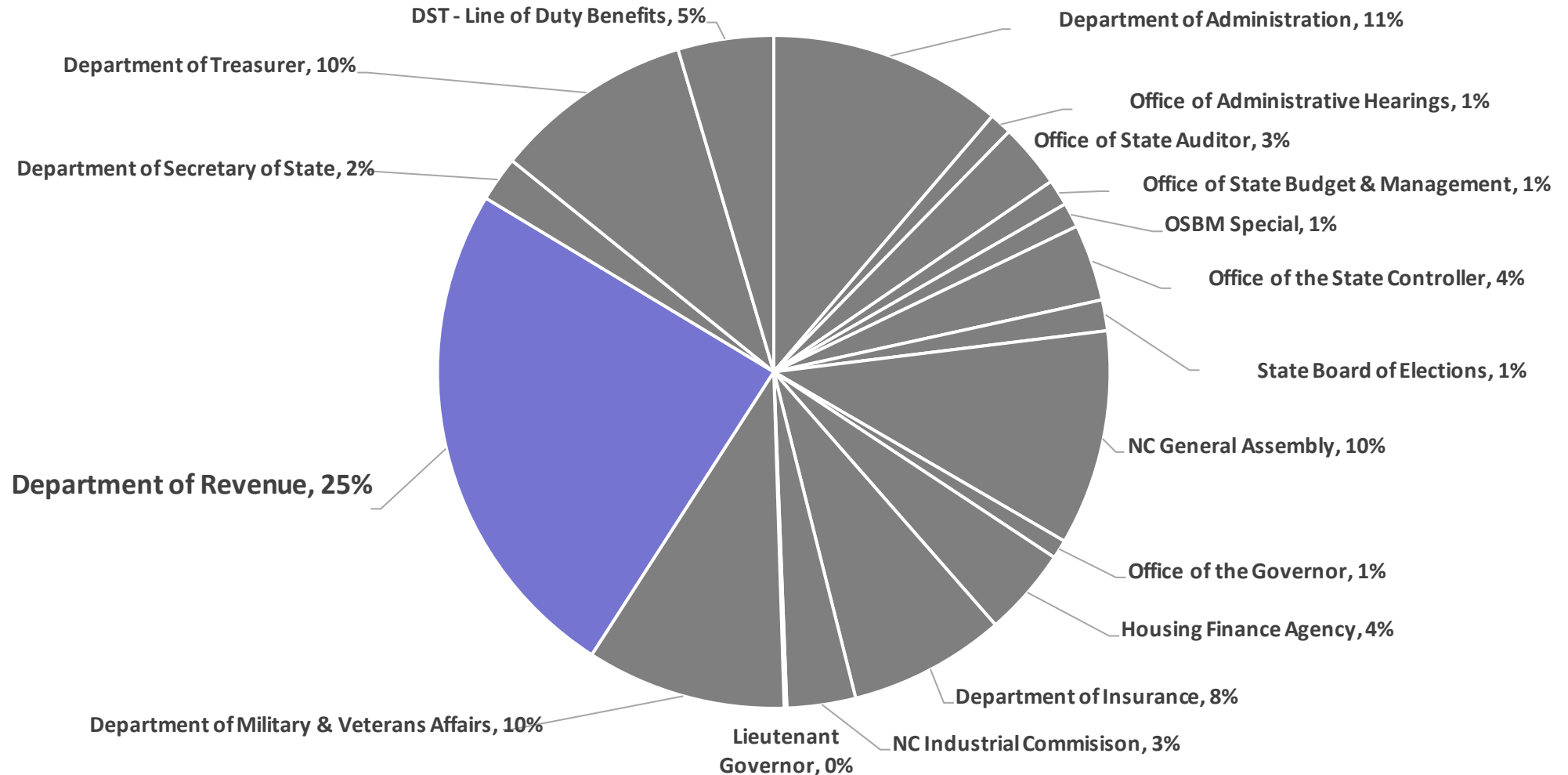
# General Government Agency Budgets In Context

Agency	FY 2020-21 Authorized Requirements	FY 2020-21 Authorized Receipts	Net General Fund Appropriation	% of Total Requirements	FTE
Department of Administration	75,717,082	10,331,223	65,385,859	10.8%	420
Office of Administrative Hearings	7,800,795	1,260,671	6,540,124	1.1%	56
Office of State Auditor	21,323,117	6,514,703	14,808,414	3.0%	160
Office of State Budget & Management	8,897,138	131,780	8,765,358	1.3%	55
OSBM Special Appropriations	8,603,000	-	8,603,000	1.2%	0
Office of the State Controller	26,556,359	814,142	25,742,217	3.8%	167
State Board of Elections	7,706,808	102,000	7,604,808	1.1%	66
NC General Assembly	74,667,502	561,000	74,106,502	10.6%	540
Office of the Governor	6,475,569	898,760	5,576,809	0.9%	52
Housing Finance Agency	30,660,000	-	30,660,000	4.4%	0
Department of Insurance	51,906,578	8,358,700	43,547,878	7.4%	452
NC Industrial Commission	23,210,603	13,567,849	9,642,754	3.3%	146
Lieutenant Governor	927,695	-	927,695	0.1%	7
Department of Military & Veterans Affairs	68,987,631	59,415,186	9,572,445	9.8%	92
<b>Department of Revenue</b>	<b>172,477,966</b>	<b>80,698,497</b>	<b>91,779,469</b>	<b>24.6%</b>	<b>1463</b>
Department of Secretary of State	14,988,522	362,357	14,626,165	2.1%	179
Department of Treasurer	67,840,591	62,895,934	4,944,657	9.7%	398
DST - Line of Duty Benefits	33,220,423	1,200,000	32,020,423	4.7%	0
	<b>\$ 701,967,379</b>	<b>\$ 247,112,802</b>	<b>454,854,577</b>	<b>100.0%</b>	<b>4,253</b>

Source: Fiscal Biennium 2021-23 Base Budget Worksheet Is, Office of State Budget & Management

# Agency Budget In Context

Total Requirements FY 2020-21<sup>1</sup> (\$ in Millions)



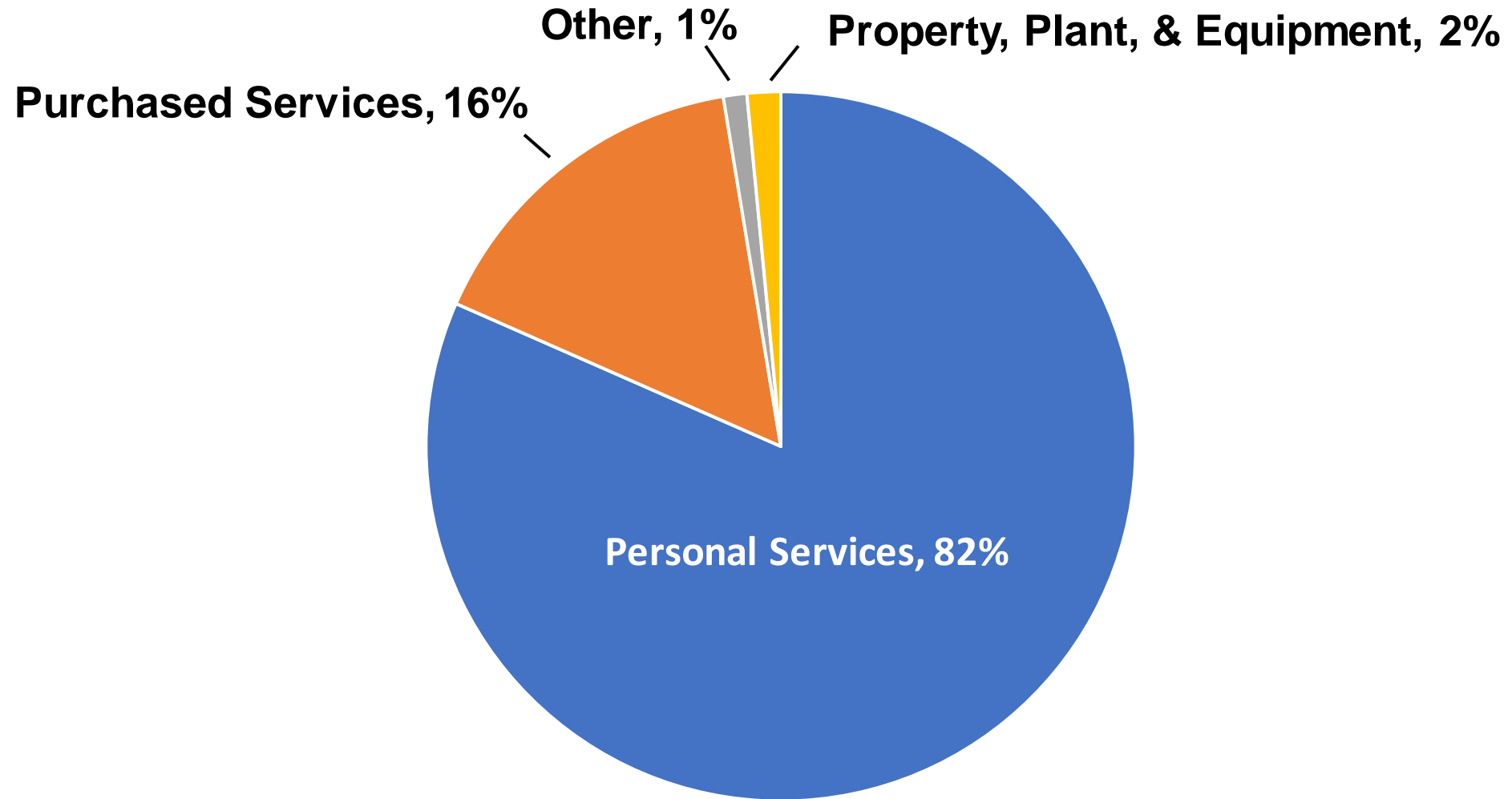
<sup>1</sup>Includes appropriations of agency receipts.





# General Fund Requirements

## Base Budget FY 2021-22



# Reversion History

Department of Revenue Reversion History (14700)						
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	5-Year Average
Reversions	1,502,516	1,812,312	1,277,861	2,953,566	2,012,649	1,911,781
Reversion % of Net Approp.	1.9%	2.2%	1.5%	3.5%	2.3%	2.3%

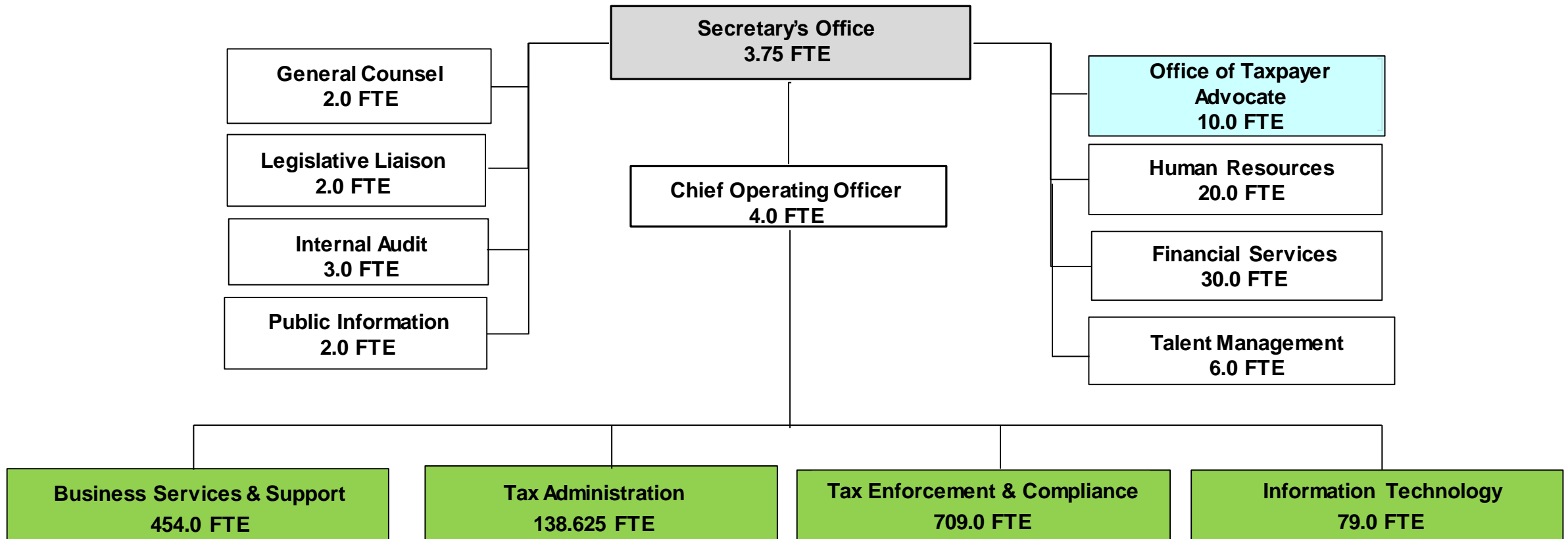
## Key takeaways

- Reversions are usually the result of vacant positions
- DOR average reversions typically exceed Statewide average

# Divisions and Special Funds



# Organizational Chart



# **Business Services and Support**

- Business Operations for the Department
  - Manages all facilities
  - Provides print, inventory, and supply services
  - Manages digital communications
  - Oversees procurement and contracts
  - Provides IT support, management, and testing
  - Manages staff access to systems and applications
- Tax Schedule Implementation
  - Provides oversight for federal and State legislative tax changes
  - Monitors individual income tax processing and tracks refunds

# **Business Services and Support**

- Contact Center and Quality Assurance
  - Answers phone calls regarding refund status and general tax inquiries
  - Monitors accuracy of responses and adjusts staff training as needed
  - Sets up payment plans
  - Manages outgoing notices and returned mail
  - Processes written correspondence
- Submissions Processing
  - Processes tax returns, payments, and business registration requests
  - Manages records retention

# Select Metrics

Business Services and Support FY 2019-20		
Division	Metric	Measurement
Submissions Processing	Number of paper returns (individual income tax)	274,121
Submissions Processing	Number of electronic returns (individual income tax)	4,051,121
Submissions Processing	Number of ePayment transactions	9,050,111
Submissions Processing	Dollar amount of ePayment transactions	\$32.1 billion
Submissions Processing	Number of check payment transactions	2,915,716
Submissions Processing	Dollar amount of check payment transactions	\$4.3 billion
Contact Center	Number of telephone calls	185,369
Tax Schedule Implementation	Average time to issue refunds	3 weeks

Source: NC Department of Revenue

# Tax Administration

- Corporate Tax, Excise Tax, Personal Tax, and Sales & Use Tax Divisions
  - Interpret tax laws and publish annual tax law updates
  - Issue private letter rulings
  - Process and resolve requests for review (taxpayer protests)
- Local Government Division
  - Supervises the valuation and taxation of property by local governments
  - Trains local governments on their duties regarding the levying of property taxes
  - Staffs the Property Tax Commission
- Knowledge, Education, and Outreach Division
  - Educates taxpayers and staff on tax law changes
  - Provides training to call center staff



# Select Metrics

Tax Administration FY 2019-20		
Division	Metric	Measurement
Knowledge, Education, and Outreach	Number of participants attending outreach events and video tutorial views	2,798
Knowledge, Education, and Outreach	Number of employee training sessions available	100
Knowledge, Education, and Outreach	Number of employee training session attendees	1,590
Corporate, Excise, Personal, Sales & Use Tax Divisions	Number of open requests for review <sup>1</sup>	549

Source: NC Department of Revenue

<sup>1</sup>Number as of 2/28/2021.

# **Tax Enforcement and Compliance**

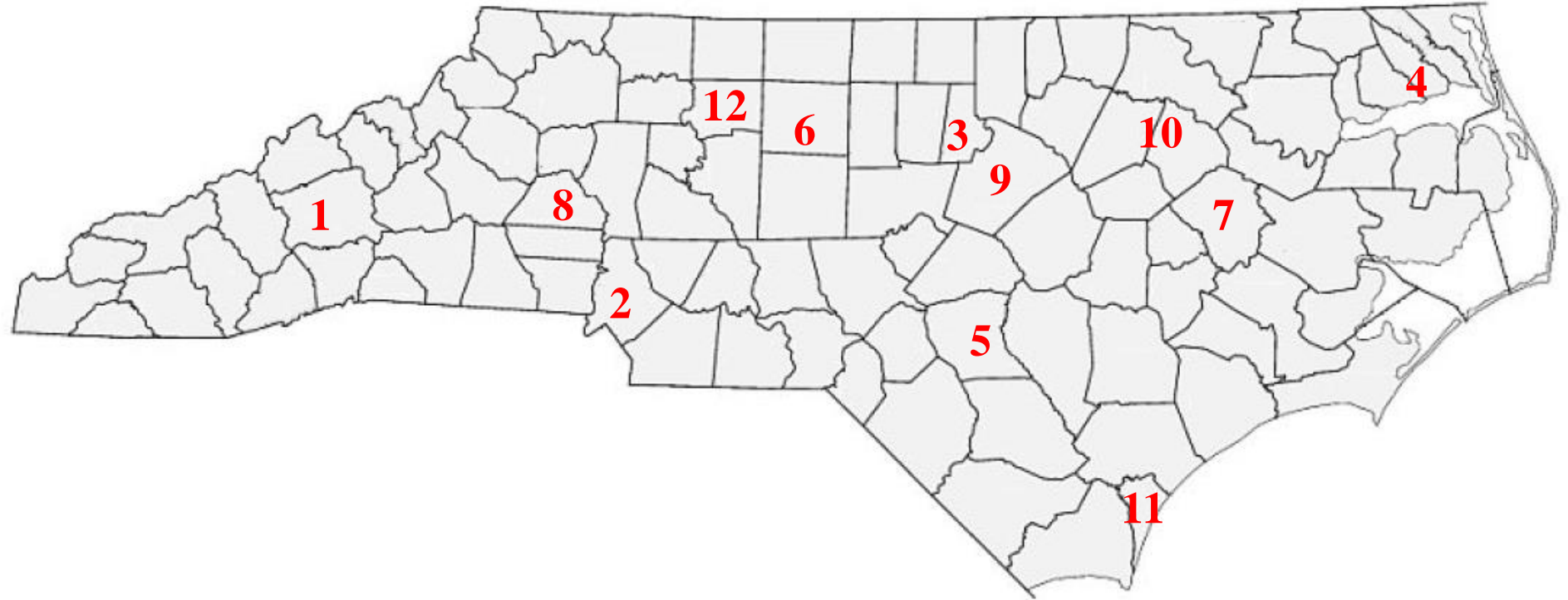
- Examination Division
  - Identifies instances of noncompliance through auditing books and records
  - Assesses and collects taxes due
  - Prevents fraudulent refunds from being issued
  - Refers criminal activity to the Criminal Investigations Division
- Criminal Investigations Division
  - Investigates criminal violations of State tax laws
  - Works with the Attorney General's office to prosecute cases
- Taxpayer Assistance and Collections Division
  - Manages the department's accounts receivable
  - Provides outreach and assistance to taxpayers to increase compliance

# Tax Enforcement and Compliance

- Involuntary Compliance Logistic and Operation Support Division
  - Recruits, hires, and trains staff for the branch
  - Provides continuing education for all staff
  - Analyzes workflow processes and makes recommendations for improvement
- Tax Analytics Division
  - Develops and manages programs that identify tax noncompliance
  - Refers instances of noncompliance to the Examination Division
  - Manages and supports the department's databases

# DOR Field Offices

1. Asheville
2. Charlotte
3. Durham
4. Elizabeth City
5. Fayetteville
6. Greensboro
7. Greenville
8. Hickory
9. Raleigh\*
10. Rocky Mount
11. Wilmington
12. Winston-Salem



\*Two field offices located in Raleigh

# Select Metrics

Tax Enforcement and Compliance FY 2019-20		
Division	Metric	Measurement
Examination Division	Number of taxpayer audits completed	159,493
Examination Division	Dollar amount of total assessments	\$931.6 million
Examination Division	Number of cases protested	0.668%
Taxpayer Assistance and Collections	Dollar amount of delinquent collections	\$594.4 million
Taxpayer Assistance and Collections	Number of telephone calls	262,358
Criminal Investigation Division	Number of cases assigned to staff <sup>1</sup>	59
Criminal Investigation Division	Number of cases prosecuted <sup>1</sup>	7

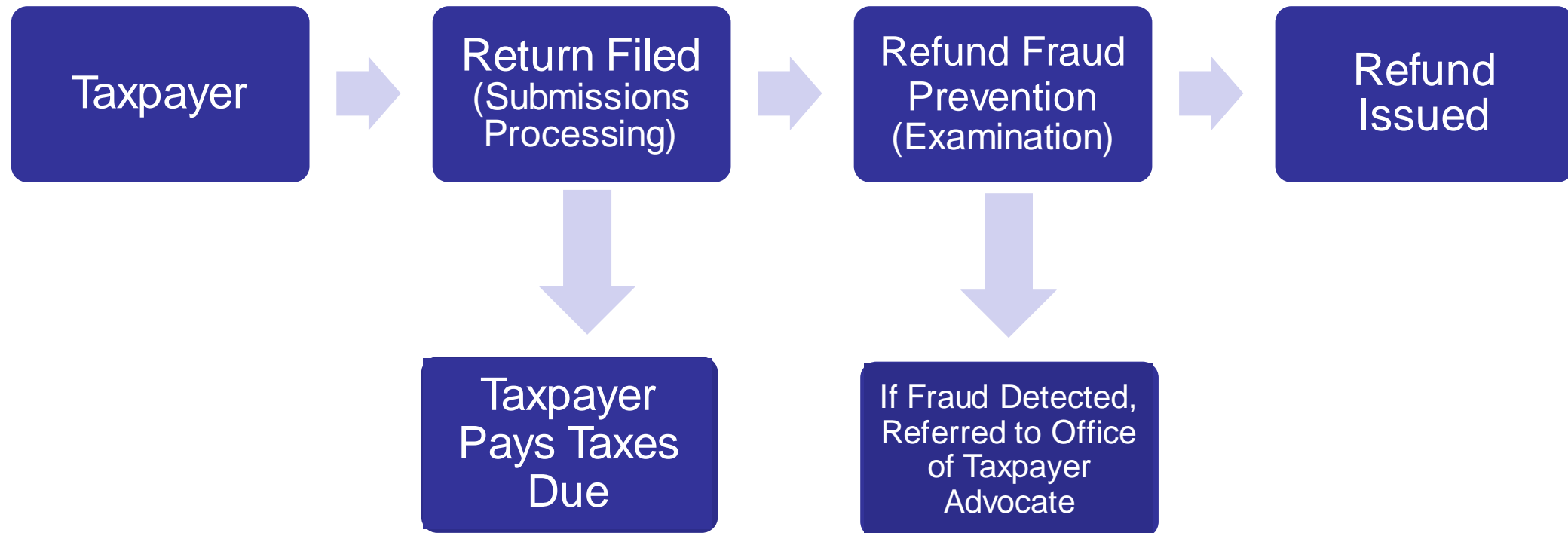
Source: NC Department of Revenue

<sup>1</sup>Numbers are total to date for FY 2020-21.

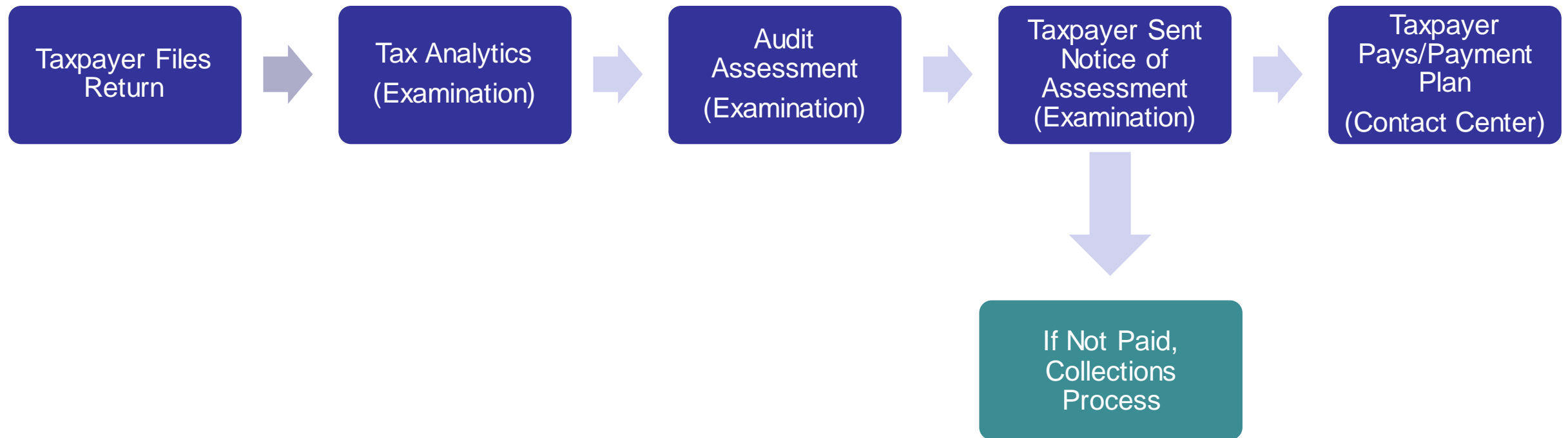
# Information Technology

- Security and Network Division
  - Develops security policies
  - Monitors and investigates security incidents and network outages
  - Maintains compliance with Internal Revenue Service security requirements
- Innovation and Implementation Division
  - Guides work activity through a project's life cycle
- Systems Development and Support Division
  - Maintains the functionality and availability of systems, applications, and databases

# Individual Income Tax Flow Chart: Voluntary Compliance

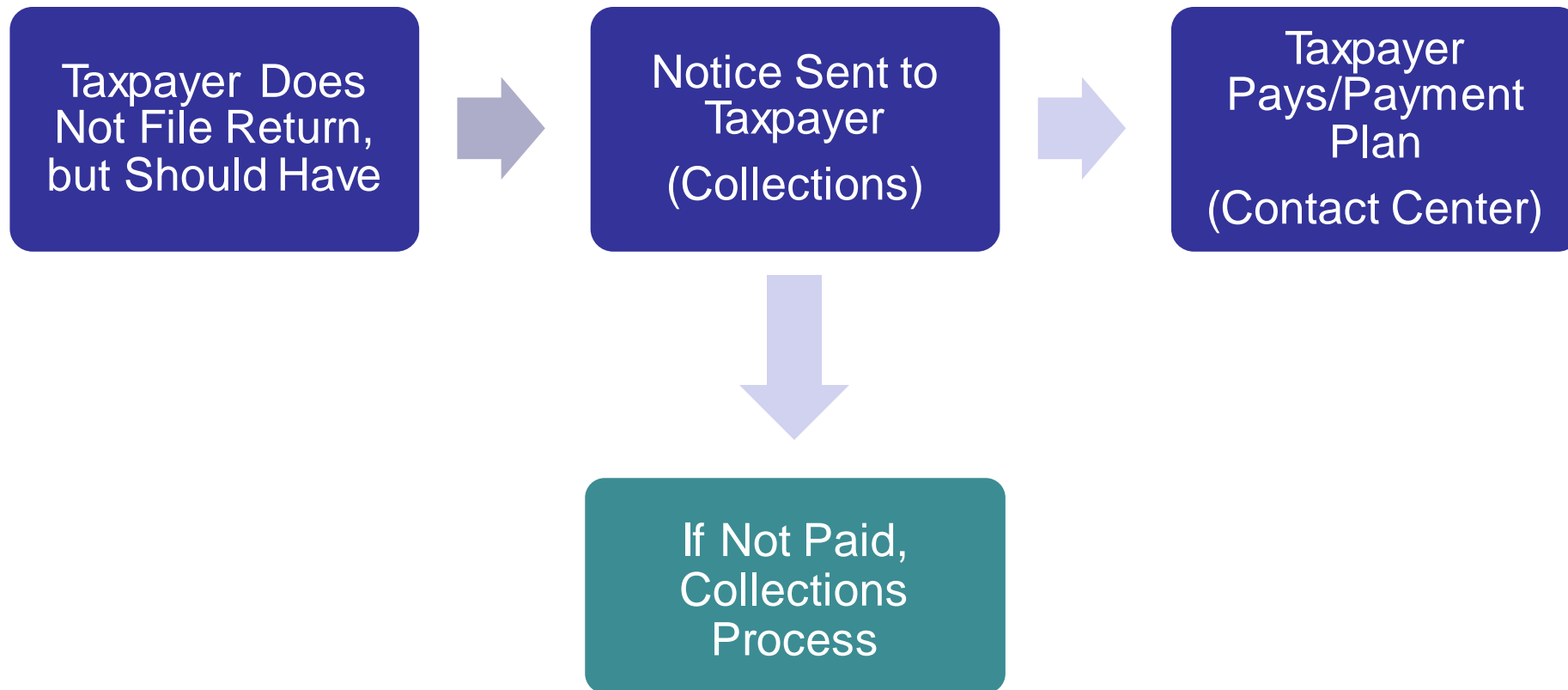


# Individual Income Tax Flow Chart: Non-Compliance (I)

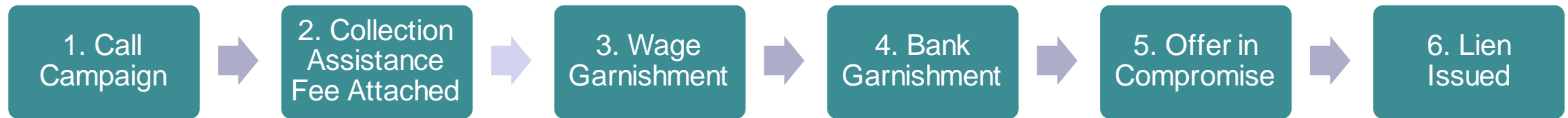




# Individual Income Tax Flow Chart: Non-Compliance (II)



# Individual Income Tax Flow Chart: Collections Process

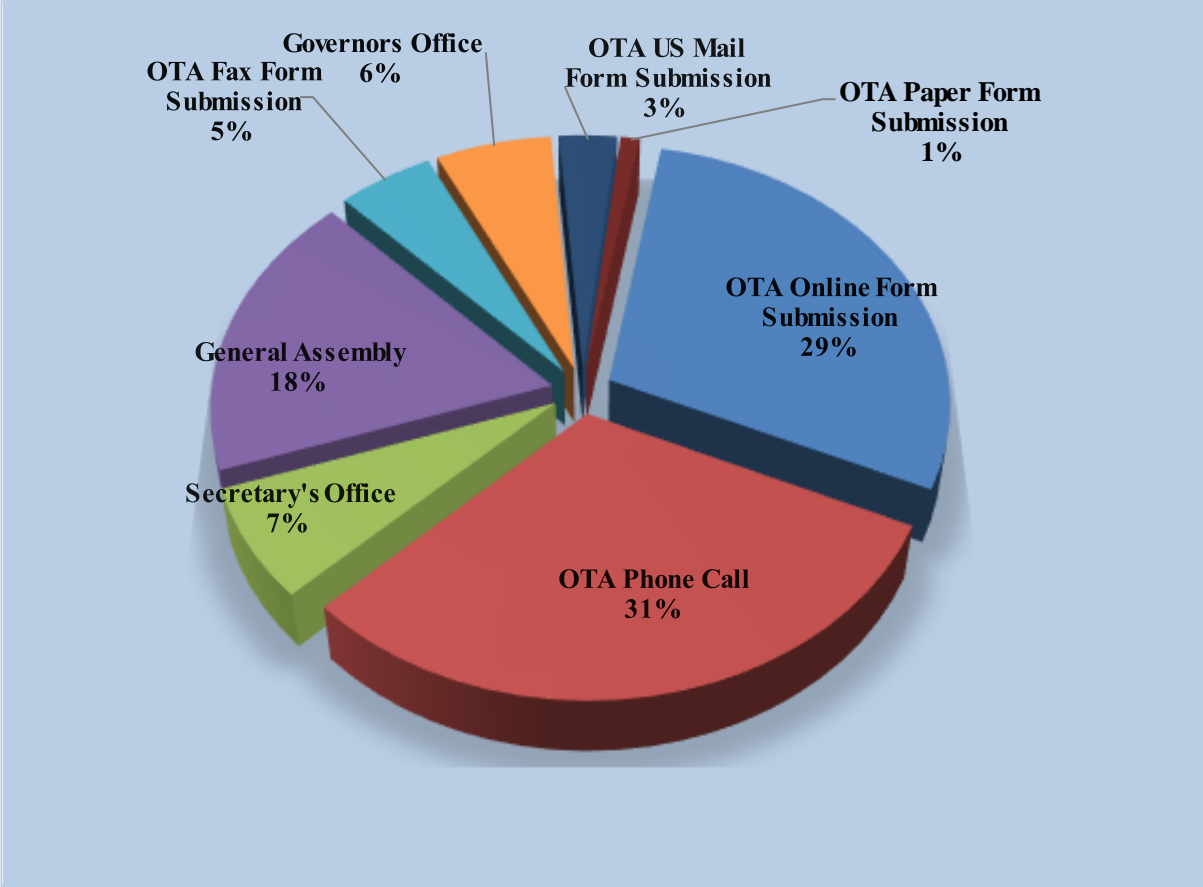


**Steps escalate until the tax is collected**

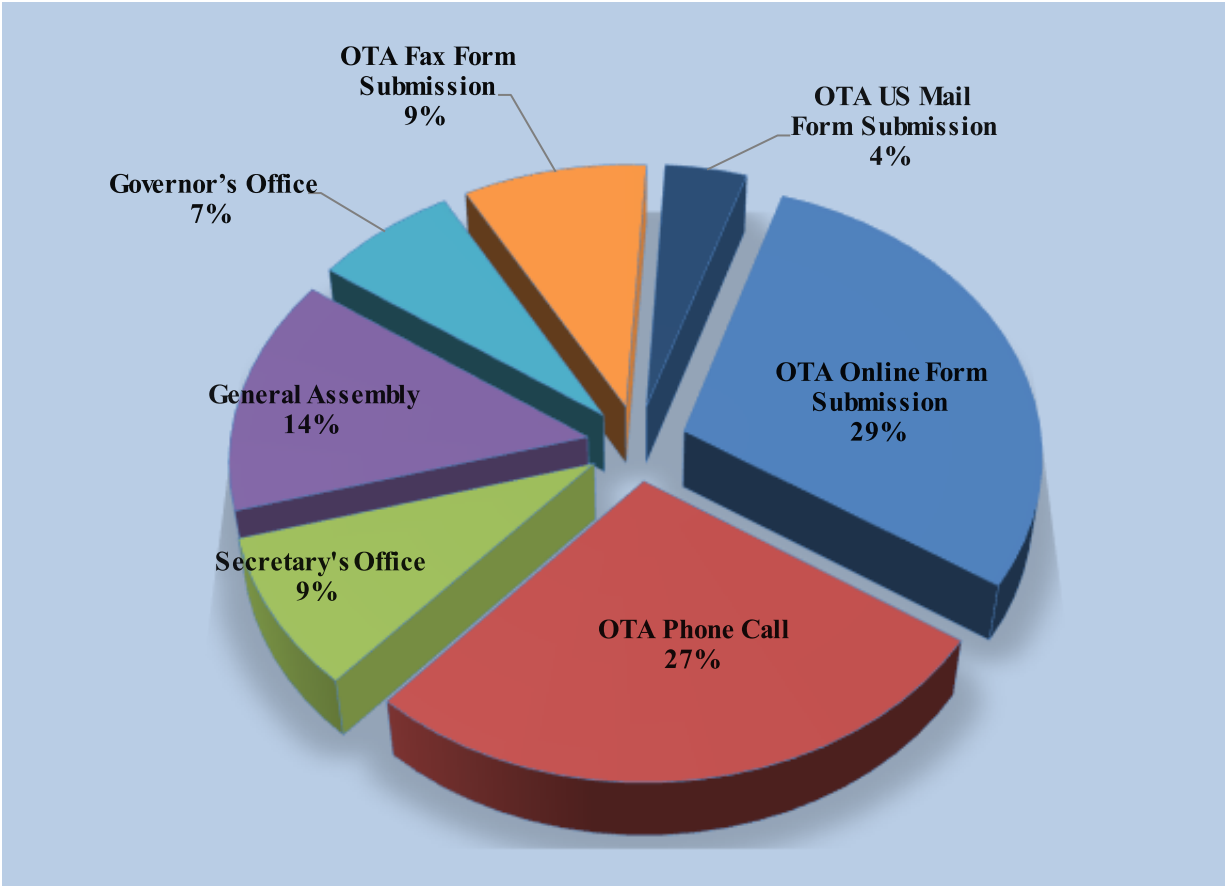
# Office of Taxpayer Advocate

- Handles taxpayer cases that are unable to be resolved through other channels
  - Receives requests from taxpayers and referrals from the General Assembly, the Governor's Office, and the Secretary of Revenue
- Assists taxpayers with instances of identity theft
  - Receives requests from taxpayers and referrals from the Examination Division
- Administers the Voluntary Disclosure Program
  - Reviews and approves voluntary disclosure requests, which are anonymous agreements with taxpayers who were previously unaware they had a filing obligation

# Office of Taxpayer Advocate: Referral by Source



1642 Requests for Assistance (CY 2020)



1056 Request for Assistance (CY 2019)

Source: NC Department of Revenue

# Collection Assistance Fee (CAF) Special Fund

- G.S. 105-243.1
  - Receipts are from a 20% fee assessed on debt that remains unpaid 60 days or more after it becomes collectible
  - The fee was established in 2001

Department of Revenue Collection Assistance Fee (CAF) Special Fund History (24704)							
	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Actual	FY 2019-20 Actual	FY 2020-21 Authorized	FY 2021-22 Base
Requirements	32,970,608	34,143,943	43,603,813	51,027,099	52,654,928	59,158,907	37,767,329
Receipts	37,042,782	35,992,467	44,392,892	43,632,693	36,044,014	34,801,864	34,801,864
Change in Fund Balance	4,072,174	1,848,524	789,079	(7,394,406)	(16,610,914)	(24,357,043)	(2,965,465)
Fund Balance June 30th	59,126,018	60,974,545	61,763,624	54,369,218	37,758,304		

# Collection Assistance Fee (CAF) Special Fund

- G.S. 105-243.1 – Allowable uses of the fund has expanded over time:
  1. To pay (i) contractors for collecting overdue tax debts under subsection (b) of this section and (ii) auditors responsible for identifying overdue tax debts. (S.L. 2001-380; S.L. 2015-241)
  2. To pay the fee the United States Department of the Treasury charges for setoff to recover tax owed to North Carolina. (S.L. 2001-380)
  3. To pay for taxpayer locator services, not to exceed three hundred fifty thousand dollars (\$350,000) a year. (S.L. 2004-124)
  4. To pay for postage or other delivery charges for correspondence directly and primarily relating to collecting overdue tax debts, not to exceed seven hundred fifty thousand dollars (\$750,000) a year. (S.L. 2005-276)
  5. To pay for operating expenses for Project Collection Tax and the Taxpayer Assistance Call Center. (S.L. 2005-276)
  6. To pay for expenses of the Examination and Collection Division directly and primarily relating to collecting overdue tax debts. (S.L. 2005-276)
  7. To pay the direct and indirect expenses of information technology upgrades to the Department of Revenue computer systems that are intended to upgrade Department of Revenue capabilities to (i) allow for electronic filing of returns by taxpayers and the electronic issuance of refunds by the Department for all remaining tax schedules and (ii) accomplish other mission-critical information technology tasks of the Department as approved by the Office of State Budget and Management in consultation with the State CIO. (S.L. 2015-241)

# Collections Activity Overview



# Collections Activity Overview

Fiscal Year	Gross <sup>1</sup> Collections (billions)	General Fund Tax Revenue (billions)	Tax Returns Filed and Processed			# Payments Processed	# Refunds Issued
			# Filed by Paper	# Filed Electronically	Total Filed		
2019-20 <sup>2</sup>	\$32.1	\$23.0	1,810,255	9,292,526	11,102,781	9,356,207	2,630,868
2018-19	\$33.0	\$23.8	2,160,352	9,163,552	11,323,904	10,109,429	2,811,378
2017-18	\$31.2	\$22.6	2,379,781	8,837,553	11,217,334	9,935,112	2,775,259
2016-17	\$30.2	\$21.7	2,732,137	8,418,279	11,150,416	9,419,616	2,854,555
2015-16	\$29.3	\$21.3	3,005,700	7,941,295	10,946,995	9,797,229	2,407,960

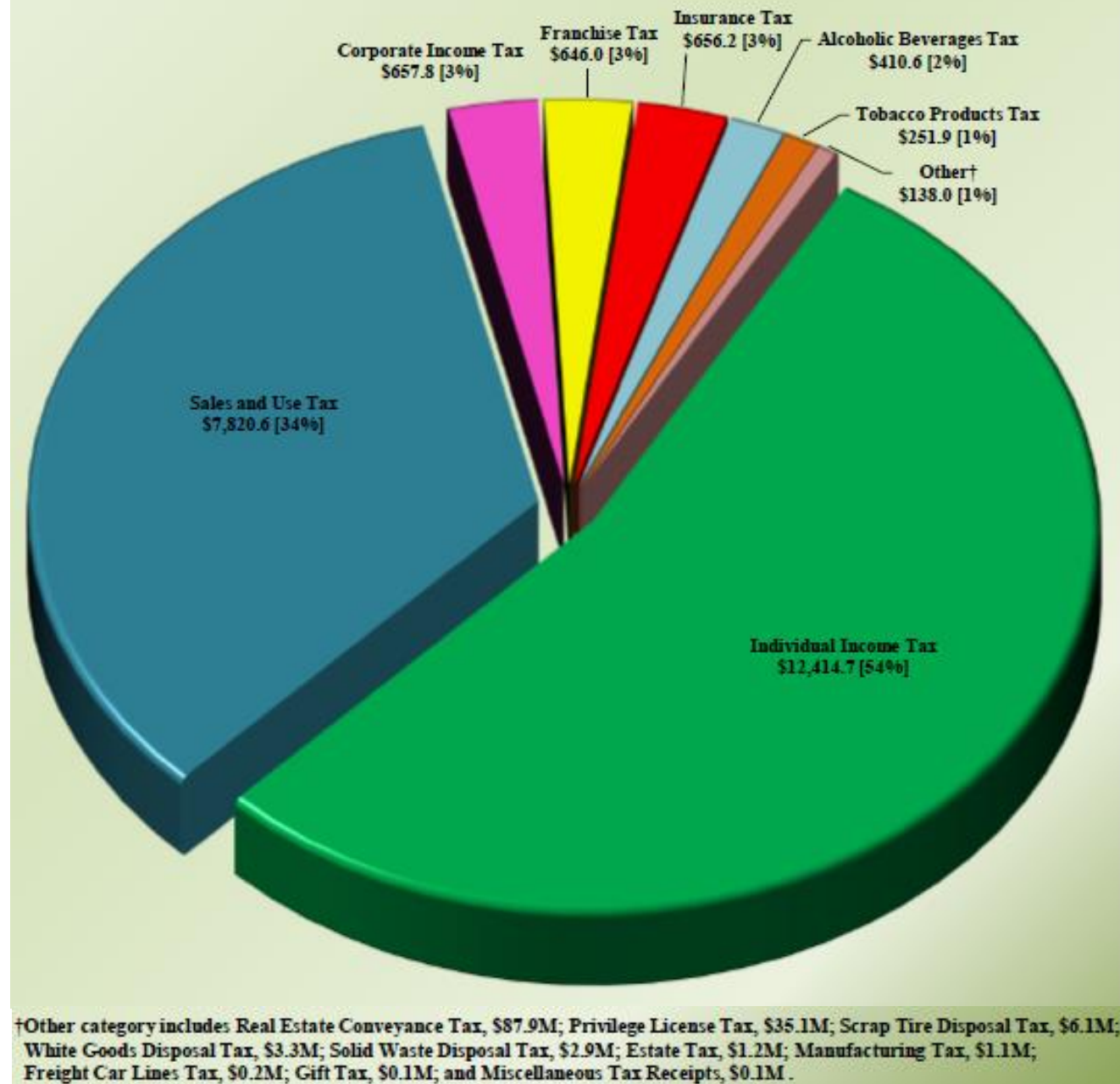
Source: NC Department of Revenue, Reports and Statistics, <https://tinyurl.com/yfr6stjo>

<sup>1</sup>Includes tax revenue, non-tax revenue, refunds, Highway Fund revenue, Highway Trust Fund revenue, and local government share of tax revenue.

<sup>2</sup>Collections were impacted by the filing date being extended to July 15, 2020, due to the COVID-19 pandemic.



# General Fund Tax Revenues by Source: FY 2019-20 (amounts in millions)



Source: NC Department of Revenue

# Recent Legislative Actions



# **Recent Legislative Actions**

## **2017 Session (S.L. 2017-57), 2018 Session (S.L. 2018-5), 2019 Session (S.L. 2019-237), & 2020 Session (S.L. 2020-97)**

- \$12.5M nonrecurring for operations and maintenance of tax systems
- \$4.4M nonrecurring for identity theft and tax fraud analysis

## **2017 Session (S.L. 2017-57)**

- \$20M nonrecurring appropriation for new [Collections Case Management system](#)

## **2019 Session (S.L. 2019-256)**

- Required DOR to update tax systems to send notices to taxpayer power of attorney – no funding appropriated (S.L. 2019-246)

# **Recent Legislative Actions**

## **2020 Session**

- Up to \$500,000 from the CAF to implement power of attorney upgrades (S.L. 2020-58)
- \$3,991,578 nonrecurring from the CAF transferred to the Board of Governors of UNC for the UNC Building Reserve (S.L. 2020-76)
- \$440,541,000 from the Coronavirus Relief Fund to administer the Extra Credit Grant (ECG) Program (S.L. 2020-97)

## **2021 Session (S.L. 2021-1)**

- Extended the ECG program application deadline to May 31, 2021
- Clarified eligibility requirements

# Extra Credit Grant Program Update

- Applications received: 42,276
- Funding disbursed: \$376.5 million
- Funding encumbered: \$114,081
- Funding available: \$63.9 million

# Budget and Fiscal Issues



# **Budget and Fiscal Issues for Consideration**

- Collection Assistance Fee (CAF) Special Fund:
  1. The expansion of allowable uses of the fund over time
  2. A reliance on the fund to support operating expenses

# 1. Expansion of Allowable Uses of the CAF Special Fund

- The two allowable uses upon creation were directly related to collecting overdue tax debt:
  - “The Department may apply the proceeds of the fee to pay contractors for collecting tax debts under subsection (b) of this section and to pay the fee the United States Department of the Treasury charges for setoff to recover tax owed to North Carolina.” (S.L. 2001-380)
- G.S. 105-243.1 was amended over time to add 7 additional allowable uses
  - Last amendment: “To pay the direct and indirect expenses of information technology upgrades to the Department of Revenue computer systems that are intended to upgrade Department of Revenue capabilities to (i) allow for electronic filing of returns by taxpayers and the electronic issuance of refunds by the Department for all remaining tax schedules and (ii) accomplish other mission-critical information technology tasks of the Department as approved by the Office of State Budget and Management in consultation with the State CIO.” (S.L. 2015-241)

## **Key Takeaway:**

- The allowable uses for the fund have expanded beyond its original purpose



## 2. Reliance on the CAF Special Fund

- The expansion of allowable uses has resulted in a greater reliance on the fund to support department operating expenses
- **Key Takeaway:** This reliance has resulted in a structural imbalance in the department's budget, as expenditures have outpaced receipts causing a draw down of the cash balance

Actual FY 2019-20 CAF Activity	
Cash Balance 6/30/2019	54,369,217
Receipts	36,044,014
Operating Expenses (recurring)	(35,727,107)
Operations and Maintenance of Tax Systems (nonrecurring)	(12,249,626)
IT Projects (nonrecurring)	(278,194)
Identity Theft and Tax Fraud Analysis (nonrecurring)	(4,400,000)
Cash Balance 6/30/2020	\$ 37,758,304

## **2. Reliance on the CAF Special Fund**

- Fund created (S.L. 2001-380)
  - Included two allowable uses directly related to collecting past due tax debt
- Legislative actions
  - Expanded the allowable uses in statute over time
  - Appropriated funds from the CAF for recurring operational costs on a nonrecurring basis
  - Requirements changed from \$33 million in FY 2015-16, to \$52.7 million in FY 2019-20
- Administrative actions
  - Transferred 10 FTE (\$1.1M recurring) from General Fund support to the CAF in FY 2019-20 through a budget adjustment

### **Key Takeaway:**

- Legislative and administrative actions have exacerbated the budget imbalance

# **Budget and Fiscal Issues for Consideration**

- Further consideration could be given to address the structural budget imbalance by:
  - Reviewing the purpose and necessity of the CAF Special Fund
  - Developing a strategy for reducing reliance on the fund to support the department's operating expenses

# Questions?

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